ANNUAL REPORT 2003

Public Service Pension Plan

105-02427/

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2003 Public Service Pension Board

From left to right: Ed Mardell, Sandra Kraatz, Lorna Smith (Vice-Chair), Len Pederson (Chair), Janina Vanderpost and Ian Tarr

2003 Report Summary

After a few years of investment losses, the equity markets turned around in 2003, and the PSPP pension fund earned a positive 15.3% rate of return for the year. We are cautiously optimistic that investment markets will continue to recover slowly in 2004.

This past year, the Board focused on ensuring the Plan and its assets are managed prudently and efficiently so we can continue to deliver benefits as promised to our members.

Plan Funding

Based on an actuarial valuation as at December 31, 2002, the Board increased contribution rates for employees and employers effective September 1, 2003. As we indicated in our communications over the past year, the market downturn impacted many pension plans, including the Alberta public sector pension plans, resulting in similar increases in their contribution rates.

The Plan's contribution rates depend heavily on the rates of return realized by the PSPP Fund. To dampen the impact of short-term market volatility on contribution rates, the actuarially acceptable practice of asset-smoothing is used in the valuation. This means

that investment gains or losses are gradually recognized over a number of years. Because of asset-smoothing, not all of the investment losses have been recognized and reflected in the 2003 rate increase.

The Board is monitoring the Plan's financial recovery, and we are working closely with the actuary to determine whether further contribution rate increases may be necessary. There will be no contribution rate increase during 2004. However, the Board anticipates contribution rates will increase in 2005 or 2006.

Governance

Good governance is key to the prudent management of the PSPP. After a comprehensive review of the PSPP governance structure, the Board made a number of recommendations to Alberta Finance to enhance the Plan governance.

COLA

The January 1, 2004 cost-of-living adjustment (COLA) granted to pensioners who retired prior to January 1, 2003 is 3.42%. This is 60% of the 5.70% increase in the Alberta Consumer Price Index (CPI) for the 12-month period ending October 31, 2003.

Administration Report

Alberta Pensions Administration (APA) Corporation's focus on stabilizing the new pension administration system resulted in a decline in service performance during 2003. Service performance improved during the last quarter of 2003 and is expected to continue to improve in 2004 as system stabilization, enhancements, and staff training are completed.

Stakeholder Satisfaction

While service satisfaction ratings from members and pensioners were similar to 2002, the decline in employer satisfaction indicated where the Corporation needed to focus on delivering improved service performance.

2003 Satisfaction Survey Results

Overall Satisfaction	
Members	86% (82%)
Pensioners	98% (96%)
Employers	75% (97%)

Note: 2002 results in brackets ( )

New System

APA Corporation now has the ability to communicate with PSPP members through direct mail. The implementation of employer online services allows employers to submit data and interact with the Corporation electronically. The system will continue to be enhanced in 2004.

The member online services project was delayed so the Corporation could stabilize employer online services and maintain consistent member and pensioner service levels.

Communications

During 2003, the Corporation delivered new member enrolment packages to 2,651 PSPP members. There were 61,543 visits to www.pspp.ca, an increase of 46% over 2002.

Plan Statistics
(Contributions, Payments, Expenses, Members)

Total contributions made to the PSPP were $165.9 million in 2003. Employer contributions represented 49.5%, or $82.1 million; member required contributions and optional service payments represented 50.3%, or $83.4 million; and transfers from other plans accounted for 0.2%, or $0.4 million.

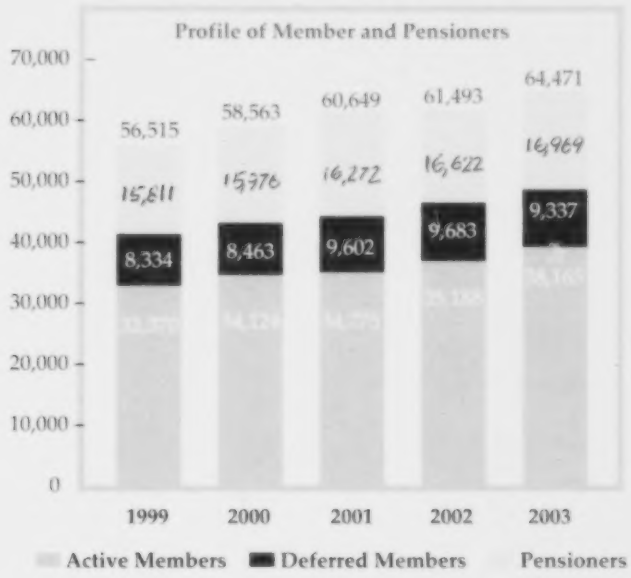
Plan Payments ($ millions)

Pensions Benefits $162.7 82.3%
Refunds to Members $13.4 6.8%
Administration Expenses $7.3 3.7%
Transfers out $.4 0.2%
Group Transfer* $13.9 7.0%

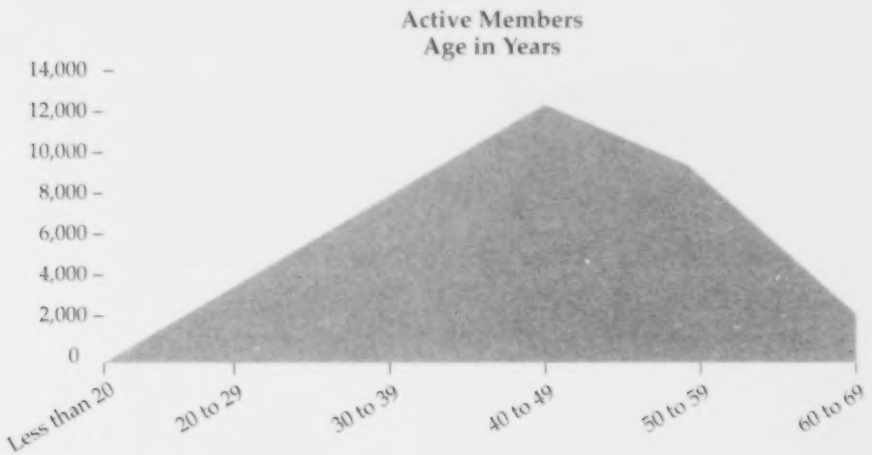
* Net transfer of assets for eligible former members of the PSPP and the Local Authorities Pension Plan

Plan expenses, including general administration costs, investment costs and actuarial fees, totaled $117 per member (active, deferred members, and pensioners), compared to $102 in 2002. The increased costs were mainly related to services provided by APA Corporation and by Alberta Investment Management, the investment operation of Alberta Revenue (IMD). For APA Corporation, the increased costs were mainly due to amortization of APEX and process improvements, service enhancements including new process improvement work, work volume increases, stabilization required on APEX and inflation. For IMD, the increased costs were mainly related to the increased use of investment management services and investment information system costs.

The PSPP serves 29 employers and a total of 64,471 members and pensioners. Nearly half of the active PSPP members work for the Government of Alberta. In 2003, 3,814 new members joined the Plan and 727 PSPP members retired.



The average age of active PSPP members is 43.7 years, and the average age of pensioners is 71.1 years. The following graph shows a breakdown of the number of active members by age group.



Investment Report

World equity markets rebounded in 2003. The Canadian, U.S. and EAFE markets were up 26.7%, 5.3%, and 13.4% respectively in Canadian dollars. The lower returns of foreign equity markets relative to Canada were mainly due to a strong Canadian dollar in relation to the U.S. dollar and the MSCI EAFE currency basket.

Investment Performance

Based on the market value of assets, the Fund's return was 15.3% in 2003.

Investment Performance - Year by Year

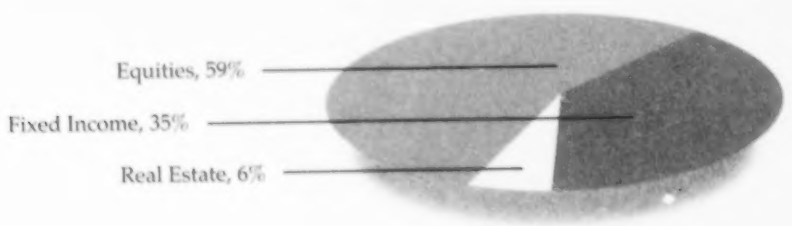
	2000 %	2001 %	2002 %	2003 %
Total Fund (Actual)	6.5	-4.4	-6.2	15.3
Policy Benchmark	5.9	-4.3	-6.8	14.5

Investment Performance - Average Annual Compound Rates of Return

	1 year	2 years	4 years	8 years
Total Fund (Actual)	15.3	4.0	2.4	7.8
Policy Benchmark	14.5	3.3	2.0	7.8

Asset Allocation

PSPP assets are allocated to capture the historically higher rates of return from equities. The Board reviews the Statement of Investment Policies and Guidelines each year with a focus on assessing ways to manage the inherent volatility of the asset mix.



Change in Net Assets

Net assets available to pay benefits at the end of 2003 were $4.071 billion, a 14.3% increase from $3.561 billion at the start of the year.

PSPP Facts

The pension you earn under PSPP is one of your most important financial assets, so it is important to understand what kind of pension plan you and your employer are contributing to and what benefits you will receive from the Plan.

PSPP is a "Defined Benefit" Pension Plan

PSPP is a defined benefit pension plan. Under PSPP, your monthly pension amount when you retire is based on your years of service and the average of your five highest consecutive years of salary.

Contributions to PSPP

Employers and employees contribute to the PSPP at the same rates. These contributions when combined with investment income are expected to provide for the benefits you earn while you participate in the Plan. Current contribution rates are illustrated in the chart below.

	Contribution Rates	
On pensionable salary	up to YMPE	6.17%
	over YMPE	8.81%

The YMPE is the Year's Maximum Pensionable Earnings under the Canada Pension Plan. For 2003, the YMPE was $39,900, and for 2004 it will be $40,500.

PSPP Benefits

The primary purpose of the PSPP is to provide you with lifetime income when you retire. Your pension is based on 1.4% of your average salary up to the average YMPE, plus 2.0% of the amount your average salary is over the average YMPE multiplied by your years of pensionable service (maximum 35 years). Your average salary is equal to the average of the highest five consecutive years of your pensionable salary. The average YMPE is calculated by averaging the YMPEs from each year within the same period your average salary is calculated.

You are eligible to receive an unreduced pension when you reach age 65 or you are at least age 55 and the sum of your age and years of pensionable service is 85 or more (85 points). You will receive a reduced pension if you retire before age 65 with fewer than 85 points but are at least age 55 and have a minimum of two years of pensionable service.

This section provides you with basic pension information and brief highlights about changes made to the Plan during 2003. Should any of this information conflict with the Plan's rules, the Plan's rules shall apply. For full details about the Plan's rules, please visit the PSPP Web site at www.pspp.ca or contact APA Corporation. Contact information for APA Corporation can be found in the Access to Information section of this document.

Changes Made in 2003

Marriage Breakdown - Pension assets can now be divided and paid directly out of the pension plan on marriage breakdown without having to wait for the member to become eligible for a benefit. A Matrimonial Property Order must be filed with APA Corporation in order for the division to occur.

Changes Effective January 1, 2004

Small Benefits - In the event of retirement, termination from the Plan or death, there is an option to receive a onetime payment or transfer to a registered retirement savings plan if the benefit would be lower than an amount set annually by PSPP rules.

Coordination - Based only on the member's lifetime so the reduced pension amount after age 65 will not impact the survivor benefit upon the member's death.

Vesting at 65 - Immediate when you reach age 65, which means you do not need a minimum of two years of pensionable service if you are at least age 65 when you retire.

Management of the PSPP

The PSPP continues under the Public Sector Pension Plans Act and regulations. The **Minister of Finance** is the Trustee of the Plan and is responsible in legislation for the administration of the Plan and the investment management of its assets.

The pension legislation authorizes the Lieutenant Governor in Council to appoint six individuals to the **Public Service Pension Board**. Three individuals are nominated to the Board by each of the Government of Alberta and the Alberta Union of Provincial Employees. The pension legislation makes the Public Service Pension Board responsible for:

- setting policy guidelines for the investment and management of PSPP assets;
- setting policy guidelines for administration of the Plan;
- setting contribution rates, based on recommendations of the PSPP actuary;
- making recommendations for Plan rule changes;
- reviewing administrative decisions; and
- making arrangements to have an actuarial valuation completed and filed with Canada Revenue Agency at least once every three years.

Alberta Investment Management manages and invests the assets on behalf of the Minister of Finance and the Board.

Aon Consulting provides actuarial services and investment consulting services to the Public Service Pension Board. Aon Consulting performs actuarial valuations of the Plan and recommends contribution rates to the Board.

The Minister of Finance has delegated the administration of the Plan to **APA Corporation**. The Corporation provides services to members, employers and pensioners and is responsible for the day-to-day administration of the PSPP, providing options for members on their pension plan choices and delivery of pension payments to pensioners.

The Alberta **Auditor General** conducts an independent audit of the financial statements of the PSPP to ensure that the financial statements are presented fairly in all material aspects and that they are in accordance with Canadian generally accepted accounting principles. The Auditor General provides a report to the Board identifying any significant findings arising from the audit and other matters they believe should be brought to the Board's attention.

EIGHT-YEAR PLAN SUMMARY

As at December 31, 2003

	2003 ($thousand)	2002 ($thousand)	2001 ($thousand)
Change in Net Assets			
Income			
Investment income	541,156	-	-
Contributions			
Employees	83,387	70,777	66,026
Employers	82,062	68,956	64,433
Pre-1992 unfunded liability			
Employees	-	-	-
Employers	-	-	-
Province of Alberta	-	-	-
Transfers from other plans	425	1,140	5,553
Total increase in assets	707,030	140,873	136,012
Expenditures			
Investment loss	-	236,270	177,681
Pension benefits paid	162,700	155,407	151,031
Refunds to members	13,357	16,870	17,608
Group transfers	13,935	-	-
Transfers to other plans	423	1,131	1,414
Administration expenses	7,300	6,210	4,475
Total decrease in assets	197,715	415,888	352,209
Change in net assets for the year	509,315	(275,015)	(216,197)
Net assets available for benefits at end of year	4,070,787	3,561,472	3,836,487
Total costs per member (actual $)	117	102	75
Investments			
Fixed income securities	1,332,080	1,210,223	1,320,753
Canadian equities*	824,909	687,685	739,845
United States equities	792,749	717,223	788,611
Non-North American equities**	864,591	713,347	764,388
Real estate	234,954	224,861	212,515
Private equity & income investments*	3,465	373	-
Total investments	4,052,748	3,553,712	3,826,112
Investment receivables	3,352	640	693
Contribution and other receivables ***	16,041	10,771	12,777
Total assets	4,072,141	3,565,123	3,839,582
Accounts payable ***	(1,354)	(3,651)	(3,095)
Net assets available for benefits	4,070,787	3,561,472	3,836,487
Actuarial adj. for fluctuation in fair value of net assets	(12,000)	356,000	329,000
Actuarial value of net assets available for benefits	4,058,787	3,917,472	4,165,487
Actuarial value of accrued benefits	4,655,000	4,093,000	3,845,000
Actuarial surplus (deficiency)	(596,213)	(175,528)	320,487
Funded ratio (%)	87	96	108
Performance (%)			
Long-term goal (investment return)	7.0	7.3	7.3
Rate of return – nominal (total fund)	15.3	(6.2)	(4.4)
Benchmark	14.5	(6.8)	(4.3)
Consumer price index (CPI) for all Canadians	2.0	3.9	7
Real rate of return (nominal – CPI)	13.3	(10.5)	(5.1)
Interest Rates (%)			
Bank of Canada	3.0	3.0	2.5
U.S. Federal Reserve	1.0	0.8	1.3
Stock Market Indices (%)			
S&P/TSX ($Cdn)	26.7	(12.4)	(12.6)
Dow Jones Industrial Index ($U.S.)	25.3	(14.9)	(5.4)
S & P 500 ($U.S.)	5.3	(22.9)	(6.4)
NASDAQ ($U.S.)	50.0	(31.2)	(20.8)
Participants – PSPP			
Active members	38,165	35,188	34,775
Deferred members	9,337	9,683	9,602
Pensioners	16,969	16,622	16,272
Total	64,471	61,493	60,649
Average age of active members (years)††	-	43.7	-
Contribution Rates (%)			
Employees – on earnings up to/over YMPE†††	6.17/8.81	4.675/6.55	4.675/6.55
Employers – on earnings up to/over YMPE	6.17/8.81	4.675/6.55	4.675/6.55
YMPE	39,900	39,100	38,300
Initial unfunded liability – employer & member	-	-	-
– Government of Alberta	-	-	-

2000 ($thousand)	1999 ($thousand)	1998 ($thousand)	1997 ($thousand)	1996 ($thousand)
263,443	550,010	297,352	385,820	428,075
59,864	63,917	62,323	58,042	60,850
58,851	62,750	60,886	56,491	58,504
-	-	3,645	3,461	3,280
-	-	3,645	3,461	3,280
-	-	**12,150**	**11,538**	**10,934**
3,964	374	154	434	516
386,122	677,051	440,155	519,247	565,439
-	-	-	-	-
144,705	140,624	137,127	132,491	127,244
18,880	20,282	24,795	27,111	29,033
289,286	-	-	-	-
2,473	438	594	480	1,328
3,714	4,407	4,003	2,905	2,664
459,058	165,876	166,519	162,987	160,269
(72,936)	511,175	273,636	356,260	405,170
4,052,684	4,125,620	3,614,445	3,340,809	2,984,549
65	75	67	49	45
1,748,347	1,625,991	1,703,979	1,474,519	1,260,667
872,124	1,493,630	982,022	1,079,569	963,582
624,135	852,454	819,582	696,782	689,164
657,749	-	-	-	-
142,306	146,873	98,122	80,823	60,022
-	-	-	-	
4,044,661	4,118,948	3,603,705	3,331,693	2,973,435
-	-	-	-	-
9,547	8,264	12,382	10,244	12,039
4,054,208	4,127,212	3,616,087	3,341,937	2,985,474
(1,524)	(1,592)	(1,642)	(1,128)	(925)
4,052,684	4,125,620	3,614,445	3,340,809	2,984,549
(70,600)	(202,600)	(87,000)	(191,000)	(231,000)
3,982,084	3,923,020	3,527,445	3,149,809	2,753,549
3,347,000	3,406,000	3,121,000	2,979,000	2,895,200
635,084	517,020	406,445	170,809	(141,651)
119	115	113	106	95
7.5	7.5	7.5	7.5	7.5
6.5	15.3	8.9	12.9	16.6
5.9	13.7	11.4	14.4	18.3
3.2	2.5	1.0	1.6	1.6
3.3	12.8	7.9	11.3	15.0
6.0	5.0	5.3	4.5	3.3
6.5	5.5	4.5	5.5	5.2
7.4	31.7	(1.6)	15	28.4
(4.7)	27.0	18.0	24.8	28.6
(5.8)	14.2	38.0	39.2	23.6
(39.1)	85.9	40.1	22.1	23.0
34,124	32,370‡	35,953	34,941	35,398
8,463	8,334	9,323	9,273	8,643
15,976	15,811	15,321	14,973	14,542
58,563	56,515‡	60,597	59,187	58,583
43.2	-	42.8	42.6	-
4.675/6.55	4.675/6.55	4.675/6.55	4.675/6.55	4.675/6.55
4.675/6.55	4.675/6.55	4.675/6.55	4.675/6.55	4.675/6.55
37,600	37,400	36,900	35,800	35,400
-	-	60	60	60
-	-	1.00	1.00	1.00

* In 2002, private equity and income investments were included with Canadian equity.

** Not separated from U.S. equities before 2000.

*** 2002 accounts receivable and accounts payable amounts were reclassified to be consistent with 2003 presentation.

‡ Adjusted to exclude transfers to LAPP.

‡‡ Only available for years when actuarial valuation of Plan completed.

‡‡‡ YMPE being the Year s Maximum Pensionable Earnings under the Canada Pension Plan

2004 PSPP Directory

Board Members

Employee Nominees
Ed Mardell
Sophie Parsons
Len Pederson, Vice Chair

Employer Nominees
Sandra Kraatz
Lorna Smith, Chair
Janina Vanderpost

PSP Board Staff

Larry Murray,
Senior Policy Advisor

Lynn Andrews,
Communication / Pension Analyst

Access to Information

The Public Service Pension Board supports disclosure of PSPP information to PSPP employers and members. You are encouraged to access this information or provide feedback on PSPP issues to the Board through the PSPP Web site, by telephone, or by e-mail. Board communication material available upon request:

- Three-year Business Plan
- Investment Policies and Guidelines
- Conflict of Interest Policy
- Annual Report & Highlights
- Actuarial Valuation
- Administrative Review Process Information Sheets

You can also find comprehensive Plan information, such as the employee handbook, newsletters, information sheets, forms, and other important PSPP communication material, on the PSPP Web site or by contacting APA Corporation.

To request any of these documents, please contact the Pension Board Secretariat at:

Public Service Pension Plan
3rd Floor, Park Plaza
10611 - 98 Avenue
EDMONTON AB T5K 2P7

Telephone: (780) 427-2782
Fax: (780) 427-1621
Toll-free General Inquiries: 1-800-661-8198
Toll-free PSPP Client Services: 1-800-358-0734

Web site: www.pspp.ca
e-mail: General inquiries - pspp.admin@gov.ab.ca
Board - pspp.bd@gov.ab.ca

Message From the Board

Following the last few years of negative returns, the markets recovered in 2003, allowing pension plans to make up some ground. The Public Service Pension Plan earned a positive 15.3% rate of return for the year. The Public Service Pension Board is cautiously optimistic that investment markets will continue to recover in 2004.

It is important for you to know we expect it will take a few years of favourable investment returns before the pension fund can fully recover from the previous years' losses. There will be no contribution rate increase during 2004. However, the Board anticipates contribution rates will increase in the year or two following 2004. The Board is working closely with the Plan actuary to monitor the Plan's financial recovery and to pursue strategies to reduce contribution rate volatility for the future.

The Board reviewed the Plan's financial position for granting an ad hoc cost-of-living adjustment to pensions over and above the automatic increase. In view of the current funded status of the Plan, the Board was not able to grant an ad hoc increase for 2003.

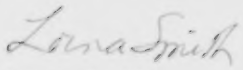
Employers can now access the new Web-based pension administration system and use the system to update information online. Our easy-to-navigate Web site, www.pspp.ca, continues to provide a convenient way for members and employers to stay current on the pension plan. Making sure members have easy access to information about the Plan is a priority.

For 2004, we will continue to monitor PSPP service providers to ensure that the Plan is managed prudently and efficiently. Working for improved Plan governance also remains a priority. Another Board initiative is to develop processes to enhance communications and consultation with employer and employee association stakeholders.

In 2002, we advised that we were going to hire a communications/pension analyst. In July 2003, we hired Lynn Andrews, CEBS. She is responsible for providing Board support on both communications and pension issues.

In 2003, we said goodbye to Ian Tarr. Ian served us for the past six years. We thank him for his hard work and the many contributions he made during this period. The Board also extends a warm welcome to Sophie Parsons, who has taken Ian's place, and to the new Chair, Lorna Smith, and Vice Chair, Len Pederson. Welcome also to Mark Wiltzen and John Dustan, our new external investment committee members.

We would like to express our appreciation to the staff of Alberta Investment Management, and Alberta Pensions Administration Corporation for their dedication in providing service to our Plan members.



Lorna Smith
2004 Chair
Public Service Pension Board

Mission Statement
The Board will act solely in the interest of the Plan and its members to ensure the Plan and its assets are managed prudently and efficiently in order to provide promised benefits for the Plan's beneficiaries.

Values and Principles
The benefits promised under the Plan must be appropriate and delivered in a timely and cost-effective manner.
The Board is accountable to the Plan's stakeholders.
All decisions made by the Board must be financially prudent, ensuring the overall financial health of the Plan is maintained.
The Plan must be effectively and capably managed and be in compliance with legislation and regulations.

PSPP Funding

Responsibility for Setting Contribution Rates

Alberta pension legislation makes the Board responsible for setting contribution rates to fund the PSPP. There is no mechanism for rates to be negotiated or approved by stakeholders through a general voting process. Funding and contributions rates for a defined benefit plan such as the PSPP can only be determined when an actuarial valuation is conducted. Contribution rate changes are based on recommendations made by the actuary. In following the pension laws, the Board has an actuarial valuation performed to review Plan funding at least once every three years.

Actuarial Valuation

Subsequent to the release of the 2002 Financial Statements, a full actuarial valuation was performed as at December 31, 2002. The valuation showed the Plan had moved to a 90% funded position and had an unfunded liability of $435 million. The unfunded liability is primarily due to poor investment returns in past years.

Based on the actuary's recommendation, contribution rates were increased on September 1, 2003 for both members and employers. The new rates for both members and employers are 6.17% of pensionable salary up to the YMPE and 8.81% of pensionable salary that exceeds the YMPE. The overall increase in rates was equivalent to 3.10% of pensionable salary. Of the total increase, 2.76% is towards the unfunded liability and 0.34% towards the increase in current service costs. The unfunded liability is being paid over 15 years.

The Board reviews the valuation assumptions periodically, in consultation with the actuary, in light of new expectations for the future. The current valuation assumes that the rate of return on PSPP assets will be 7.00% per annum over the long term, down from 7.25% in the previous valuation. No changes were made to the assumed rate of inflation of 3.25% per annum. As a result, the assumed real rate of return (return minus inflation) decreased to 3.75% per annum from 4.00%. The mortality table was also updated.

To learn more, you can view the full results of the actuarial valuation on the PSPP Web site at www.pspp.ca under "About Us."

Extrapolation to December 31, 2003

Financial statements in this report are based on an extrapolation of the December 31, 2002 valuation results by the actuary to the end of 2003. Based on the extrapolation, the Plan is 87% funded as at December 31, 2003.

Amendment to Remove Solvency Funding Requirement

Pursuant to a Board recommendation, the legislation was changed in 2003 to remove the requirement for the PSPP to fund on a solvency basis. The Board's view is that solvency funding adds to contribution rate instability and is not needed for public sector plans, because they are not likely to terminate. Consequently, the PSPP must be and is being funded on a going concern basis and contribution rates have been set based on the going concern valuation results for the Plan.

The 2003 Annual Report reflects formatting changes to meet guidelines on Management's Discussion & Analysis (MD&A) disclosure. MD&A gives readers the ability to look at the performance of the PSPP through the eyes of the Board. Final changes will be made to the 2004 Annual Report to fully incorporate the MD&A disclosure format.

PSPP Funding

Outlook for the Future

PSPP contribution rate levels depend on rates of return realized by the PSPP Fund. Investment returns can vary substantially from year to year, and short-term market volatility can significantly impact contribution rates. The actuarially acceptable practice of asset smoothing is used in the actuarial valuation to dampen this effect and to keep contribution rates more stable. Through asset-smoothing, actual investment returns above or below the long-term expected returns are recognized over a three-year period.

The 2002 actuarial valuation indicated that poor returns to the end of 2002 caused accrued liabilities of the Plan to exceed the market value of assets by almost $800 million as of December 31, 2002. The practice of smoothing adjusts the Plan's net assets by recognizing investment returns over a number of years. The difference between the market value of net assets and the actuarial value of assets reported in the December 31, 2002 actuarial valuation mainly represents the delayed recognition of equity losses from 2001 and 2002. This difference is held in a smoothing reserve to be recognized by the Plan over a three-year period. The 2003 investment gain was reduced because of the delayed recognition of these losses. Actuarial projections show that even if the market value instead of the smoothed value of assets to the end of 2003 were used in the recent valuation, a contribution rate increase would be required to cover previous years' investment losses.

Unless the markets produce very high returns in the short term, a further contribution rate increase following the next actuarial valuation will be necessary. The size of the increase will depend on the difference between assumed and actual market experience as well as other Plan experience.

In 2004, the Board will monitor closely the funded status of the PSPP. As well, the Board will investigate strategies to reduce contribution rate volatility. This is in keeping with the Board's mandate to ensure the PSPP funding is sustainable over the long run.

There will be no contribution rate increase in 2004. However, the Board anticipates contribution rates will increase in 2005 or 2006.

Investment Report

Performance

Year in Review

World equity markets rebounded strongly in 2003 after a few years of negative returns. The year started on a cautious note, with investors worrying about the strength of the economic recovery and geopolitical concerns. Low interest rates and improving economic fundamentals set the stage for an economic recovery. Generally, more speculative stocks posted the largest gains in 2003, with small cap stocks outperforming large cap and growth-oriented investments outpacing value-oriented investments. The Canadian, U.S. and EAFE markets were up 26.7%, 5.3%, and 13.4% respectively in Canadian dollars. The lower returns of foreign equity markets relative to Canada were mainly due to a strong Canadian dollar in relation to the U.S. dollar and the MSCI EAFE currency basket. Canadian bonds also had a positive year, returning 6.7%.

While the Fund's 2003 return is 15.3%, it will be important to maintain investment discipline over the long term, especially during periods of volatility. The PSPP asset allocation policy is structured to capture the historically higher rates of return from equities. The asset mix is weighted more to equities at 59%, with 35% allocated to fixed income and 6% to real estate.

	Annual Returns %			
	2003	2002	2001	2000
Total Fund	**15.3**	**-6.2**	**-4.4**	**6.5**
Policy Return	14.5	-6.8	-4.3	5.9
Consumer Price Index	2.0	4.3	0.7	3.2
Short-term fixed income	**3.1**	**2.9**	**4.7**	**5.8**
SC 91-Day T-Bill Index	2.9	2.5	4.7	5.5
Long-term fixed income	**7.6**	**9.5**	**8.7**	**10.9**
SC Universe Bond Index	6.7	8.7	8.1	10.2
Real Return Bonds	**13.5**	**15.2**	**-2.0**	**n/a**
SC Real Return Bond Index	13.3	15.3	0.5	n/a
Canadian Equities	**26.3**	**-11.5**	**-10.8**	**9.3**
S&P/TSX	26.7	-12.4	-12.6	7.4
United States Equities	**7.1**	**-22.3**	**-6.4**	**-4.0**
S&P 500 Index	5.3	-22.9	-6.4	-5.8
Non-North American Equities	**14.2**	**-15.9**	**-16.0**	**-12.2**
MSCI EAFE Index	13.4	-16.8	-16.5	-11.2
Real Estate	**10.0**	**6.2**	**8.0**	**7.2**
Real Estate Index (1)	8.1	8.6	10.3	11.8

	Compound Annualized Returns %				
	1yr	2yr	3yr	4yr	8yr
Total Fund	**15.3**	**4.0**	**1.1**	**2.4**	**7.8**
Policy Return	14.5	3.3	0.7	2.0	7.8
Consumer Price Index	2.0	2.9	2.2	2.5	2.0
Short-term fixed income	**3.1**	**3.0**	**3.6**	**4.1**	**4.5**
SC 91-Day T-Bill Index	2.9	2.7	3.4	3.9	4.2
Long-term fixed income	**7.6**	**8.5**	**8.6**	**9.1**	**8.1**
SC Universe Bond Index	6.7	7.7	7.8	8.4	7.9
Real Return Bonds	**13.5**	**14.4**	**8.6**	**n/a**	**n/a**
SC Real Return Bond Index	13.3	14.3	9.5	n/a	n/a
Canadian Equities	**26.3**	**5.7**	**-0.1**	**2.2**	**9.4**
S&P/TSX	26.7	5.3	-1.0	1.0	9.0
United States Equities	**7.1**	**-8.8**	**-8.0**	**-7.0**	**6.0**
S&P 500 Index	5.3	-9.9	-8.7	-8.0	8.7
Non-North American Equities	**14.2**	**-2.0**	**-6.9**	**-8.3**	**5.8**
MSCI EAFE Index	13.4	-2.9	-7.7	-8.6	2.6
Real Estate	**10.0**	**8.1**	**8.1**	**7.8**	**9.7**
Real Estate Index (1)	8.1	8.3	9.0	9.7	11.3

(1) The benchmark return for 2003 is estimated and subject to change. Effective January 1, 2003 the benchmark changed from the Russell Canadian Property Index to the IPD Large Institutional All Property Index.

Investment Committee – Members and Mandate

The 2003 Investment Committee members were Janina Vanderpost (Chair), Lorna Smith and Ian Tarr. The external member was Dick Bradshaw.

The Investment Committee is charged with recommending to the Board policy changes to the Statement of Investment Policies and Guidelines as well as overseeing the management of the Plan's investments and monitoring investment performance. Aon Consulting was engaged by the Board at the beginning of 2003 to provide the Committee with professional investment consulting services.

The Investment Committee is an advisory body to the Board made up of three Board members and two external professionals chosen for their ability to bring expertise and knowledge to the work of the Investment Committee. All appointments to the Investment Committee are made by the Board.

Investment Report

Market Values and Performance by Asset Type

Fixed Income Investments

Alberta Investment Management internally manages the fixed income component totaling $1.332 billion at year end, which includes allocations to bonds, real return bonds, mortgages and cash.

Overall, the Plan's fixed income allocation outperformed the respective benchmarks. Bonds returned 7.6% versus the ScotiaCapital Universe Bond Index return of 6.7%, and the real return bonds returned 13.5%, outperforming the ScotiaCapital Real Return Bond return of 13.3%. The cash and short-term component had a return of 3.1%, exceeding the 2.9% return of the Scotia Capital 91-Day T-bill Index.

Short-term Fixed Income	Actual Fund Return	Benchmark Index (ScotiaCapital 91-Day T-bill Index)	Net Value Added
One year	3.1%	2.9%	20 basis points
Four year	4.1%	3.9%	20 basis points

Summary of Fixed Income Holdings (by security type)

Bonds and Mortgages	Actual Fund Return	Benchmark Index (ScotiaCapital Universe Bond Index)	Net Value Added
One year	7.6%	6.7%	90 basis points
Four year	9.1%	8.4%	70 basis points

Real Rate of Return Bonds	Actual Fund Return	Benchmark Index (ScotiaCapital Real Return Bond Index)	Net Value Added
One year	13.5%	13.3%	20 basis points
Three Year	8.6%	9.5%	-90 basis points

*Real rate of return bonds commenced in 2001.

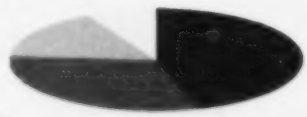
Canadian Equity Investments

The Plan invests in Canadian equities through several strategies totaling $825 million, including both indexed and active mandates. Alberta Investment Management manages the enhanced index and core active management strategies internally. External investment advisors manage the large cap active strategy and the small cap active strategy.

The total Canadian equity return was 26.3% versus 26.7% for the S&P/TSX Composite Index. The Canadian large cap product underperformed primarily as a result of an underweight position in information technology and an overweight position in healthcare. This underperformance was partially offset by the Canadian small cap product. It performed very well against the large cap segment (S&P/TSX Capped Composite Index) of the market.

Canadian Equities	Actual Fund Return	Benchmark Index (S&P/TSX Composite Index)	Net Value Added
One year	26.3%	26.7%	-40 basis points
Four year	2.2%	1.0%	120 basis points

Summary of Canadian Equity Holdings



Top 10 Canadian Equity Holdings December 31, 2003 Company	%
Royal Bank of Canada	4.8
Bank of Nova Scotia	4.5
Toronto Dominion Bank	3.7
Encana	3.2
Petro Canada	3.2
Bank of Montreal	3.1
Alcan Inc.	3.1
BCE Inc.	2.9
Sun Life Financial Services	2.7
Canadian Imperial Bank of Commerce	2.4

Investment Report

Foreign Equity Investments

The foreign equity allocation is divided by policy into allocations to the U.S. and Non-North American equity markets. Within the Non-North American segment, mandates are divided into either regional (e.g. Europe), where the manager invests solely within the region, or multi-regional (e.g. Europe, Australasia and Far East), where the manager may invest across the different regions.

U.S. Equities

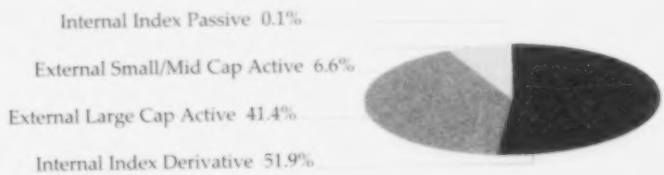
At December 31, 2003, the Plan's investments in the U.S., totaling $793 million, were allocated 56.3% to index and 43.7% to active strategies. A significant portion was invested in the internally managed structured derivative product, which is designed to manage the Fund's exposure to foreign equity relative to the Federal Income Tax Act foreign property limits. The remainder was allocated to active external managers.

For 2003, the Plan's U.S. equity exposure returned 7.1%, outperforming the S&P 500's return of 5.3% (in Canadian dollars). U.S. equity outperformance was primarily due to small/mid cap managers outperforming their large cap benchmark and the Canadian/U.S. dollar currency hedge.

U.S. Equities	Actual Fund Return	Benchmark Index (S&P 500 Index)*	Net Value Added
One year	7.1%	5.3%	180 basis points
Four year*	-7.0%	-8.0%	100 basis points

* Prior to December 2000, the benchmark was the MSCI World Index.

Summary of United States Equity Holdings


Internal Index Passive 0.1%
External Small/Mid Cap Active 6.6%
External Large Cap Active 41.4%
Internal Index Derivative 51.9%

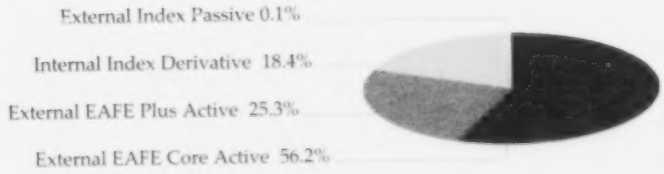
Top 10 U.S. Equity Holdings
December 31, 2003

Company	%
Pfizer Inc.	2.6
Microsoft Inc.	2.4
Citigroup Inc.	2.3
General Electric Co.	2.0
Exxon Mobil Corp.	1.7
Intel Corp.	1.5
Wal-Mart Stores	1.5
Cisco Systems	1.5
American International Group Inc.	1.5
Pepsico Inc.	1.4

Non-North American Equities

The Non-North American equity component, totaling $865 million, includes exposure to both developed and, on an opportunistic basis, emerging markets. At December 31, 2003, index-based strategies comprised 18.5% of the non-North American portfolio. Derivative products are used to manage the Fund's exposure to foreign equity relative to the Federal Income Tax Act limits. The remaining exposure, 81.5% of the portfolio, is allocated to external active managers.

Summary of Non-North American Equity Holdings



Investment Report

The Plan's Non-North American equity exposure returned 14.2% in 2003 while the MSCI EAFE Index returned 13.4% (in Canadian dollar terms).

The internal structured product and externally managed active EAFE mandates outperformed during the year.

Non-North American Equities	Actual Fund Return	Benchmark Index (MCSI EAFE Index)*	Net Value Added
One year	14.2%	13.4%	80 basis points
Four year*	-8.3%	-8.6%	30 basis points

* Prior to December 2000, the benchmark was the MSCI World Index.

Top 10 Non-North American Equity Holdings December 31, 2003 Company	%
Vodafone Group	2.3
Total SA	2.0
Nestle SA	1.8
BP PLC	1.5
UBS AG	1.4
GlaxoSmithKline	1.2
Novartis AG	1.2
ENI	1.1
Credit Suisse GRP	1.1
Aventis	1.1

Real Estate

The real estate component, totaling $235 million, provides diversification relative to the equity and fixed income markets. The Plan's investments are primarily in a mix of retail, office and industrial properties in major Canadian urban areas. The focus is on quality, featuring strong locations and tenants.

The real estate return in 2003 was 10.0% versus 8.1% for the ICREIM/IPD Large Institutional All Property Index. The outperformance relative to the benchmark index was attributed to strong capital appreciation from Ontario retail and industrial properties as well as steady income growth from all property types outside of the Toronto office market.

Real Estate	Actual Fund Return	Benchmark Index (ICREIM/IPD Large Institutional All Property Index)*	Net Value Added
One year	10.0%	8.1%	190 basis points
Four year	7.8%	9.7%	-190 basis points

* The ICREIM/IPD Large Institutional All Property Index replaced the Russell Canadian Property Index (RCPI) in January 2003.

Investment Policies and Guidelines

Investment Management Overview

The PSPP assets are invested for the benefit of PSPP beneficiaries in accordance with the Board's Statement of Investment Policies and Guidelines. The Minister of Finance has delegated management of the Plan's investments to Alberta Investment Management.

The Statement of Investment Policies and Guidelines establishes investment principles and guidelines, giving particular consideration to PSPP provisions, its characteristics and financial obligations. Its also defines the management structure and monitoring procedures adopted for the ongoing operation of PSPP investments.

The Board reviewed its investment policies with a focus on assessing the risk tolerance of the Plan and ways to manage the inherent volatility of the long-run asset mix.

Investment Report

Long-Term Investment Objectives

Investment earnings have traditionally provided approximately 80% of Plan funding. Because investment earnings are the most important PSPP funding source, assets are prudently and efficiently managed in order to provide promised benefits for PSPP beneficiaries while limiting the variability of member and employer contributions.

The investment policies adopted by the Board reflect an underlying philosophy of prudence. The Plan's investment policy sets the framework within which the Plan assets are to be invested in order to earn the highest possible return based on a level of risk acceptable to the Board. The future liabilities of the Plan are taken into consideration as well as the historic performance and relationship among asset classes. To meet the long-term funding needs of the Plan, it is expected that investments earn a return of at least 3.75% greater than inflation.

Investment Results In Relation to Benchmarks

The policy benchmark return of the Fund is based on the policy asset mix weightings set by the Board and returns of related market benchmarks. The investment manager's performance is measured against the Fund's policy benchmark return to determine the impact of the manager's investment decisions. In 2003, the Plan had a return of 15.3% while the policy benchmark returned 14.5%. On a four-year compound annualized basis the PSPP returned 2.4%, exceeding the policy benchmark return of 2.0% over the same period. On an eight-year compound annualized basis the PSPP returned 7.8%, matching the benchmark return.

In 2003, relative to the policy benchmark, the actual portfolio added approximately 80 basis points (80/100ths of 1%) of value. This 80 basis point outperformance can be attributed to asset allocation (e.g. Canadian equities versus Canadian fixed income) and product performance (e.g. Canadian active equity product versus S&P/TSX Composite index).

Administration Report

Alberta Pensions Administration (APA) Corporation provides administrative services to the PSPP under an Administration Services Agreement with the Minister of Finance. The Corporation's core business is to provide benefit administration for pension plan members, employers and pensioners by paying pension benefits, collecting pension plan contributions, maintaining membership records and providing information to members, pensioners and employers.

The Corporation also provides support services to the sponsors and trustees of the pension plans, assisting them in meeting their fiduciary responsibilities, communicating with their members and providing other support services as required.

Mission

On behalf of the Government of Alberta, the Corporation exists so that members, trustees of members' funds and employers in government designated pension plans realize the benefits of sound pension administration.

Service Performance

APA Corporation recognizes the importance of efficient service delivery and stakeholder satisfaction. The Corporation will identify areas where cost containment and increased stakeholder satisfaction can occur.

In order to better understand stakeholder needs, the Corporation distributes annual satisfaction surveys. Surveys are issued to members, employers, pensioners and plan boards to determine their satisfaction with the services provided by the Corporation. In 2004, the Corporation plans to enhance its survey mechanisms by increasing the sample size surveyed and ensuring direct consultation with stakeholders prior to survey distribution. The following are the results from the 2003 satisfaction surveys.

When asked how they perceived overall service from Corporation, those surveyed responded:

	Excellent	Satisfactory	Overall Satisfied
Members	39%	47%	86%
Pensioners	43%	55%	98%
Employers	17%	58%	75%

Service measures are another standard that drives performance at APA Corporation. This practice ensures consistent, cost-effective service delivery of pension services against industry standards. The Corporation encountered service delivery challenges due to the implementation and stabilization of the new pension administration system throughout much of 2003. Service standards saw improvements in the last quarter of 2003 and will continue to improve in 2004 as the pension administration system continues to stabilize, enhancements are put into place and all corporate staff gain full training on process and procedures for the system.

For more information on the Corporation's service standards, please see the Corporate annual report at www.apaco.ab.ca.

Administration Committee – Members and Mandate

The 2003 Administration Committee members were Sandra Kraatz (Chair), Ed Mardell and Len Pederson.

The Administration Committee is charged with overseeing the administration of the Plan, drafting of administration and communication guidelines, and providing policy recommendations relating to Plan administration. The Administration Committee is an advisory body to the Board. The Board appoints three of its members to the Administration Committee.

Administration Report

Maintaining and Improving Service

New Pension Administration System

In order to provide excellent service to stakeholders, the Corporation must make use of current technology. Stabilization of the pension administration system occurred throughout 2003, and enhancements to reporting, calculations and data will continue into 2004. For up-to-date information, visit the Corporation Web site at www.apaco.ab.ca.

APA Corporation also implemented employer online services. This Web-based interface allows employers to submit data and interact with the Corporation electronically. Employer online services will continue to be enhanced in 2004.

In 2003, the member online services project was delayed so that the Corporation could stabilize employer online services and maintain consistent customer service levels without impacting scarce resources.

Finances

The Corporation's per member cost for service delivery, including process improvements, in 2003 was $76, up from $60 in 2002. Costs for implementing APEX in 2003 were $22 per member, down from $27 per member in 2002.

Results

Service Performance Measurements

In 2003, member annual statements for 2002 were issued from the new pension administration system. By the end of June 2003, 87% of PSPP statements had run. Due to a number of changes that were made to the pension administration system, the remaining statements were finalized and sent to members in October 2003.

Member Education and Consultations

In 2003, 42 employee seminars were conducted for 1,167 PSPP members and 249 one-on-one consultations with members were conducted. Satisfaction survey results indicated that 73% of members were very satisfied and 27% satisfied with the one-on-one sessions, while 77% were very satisfied and 23% satisfied with the employee seminars.

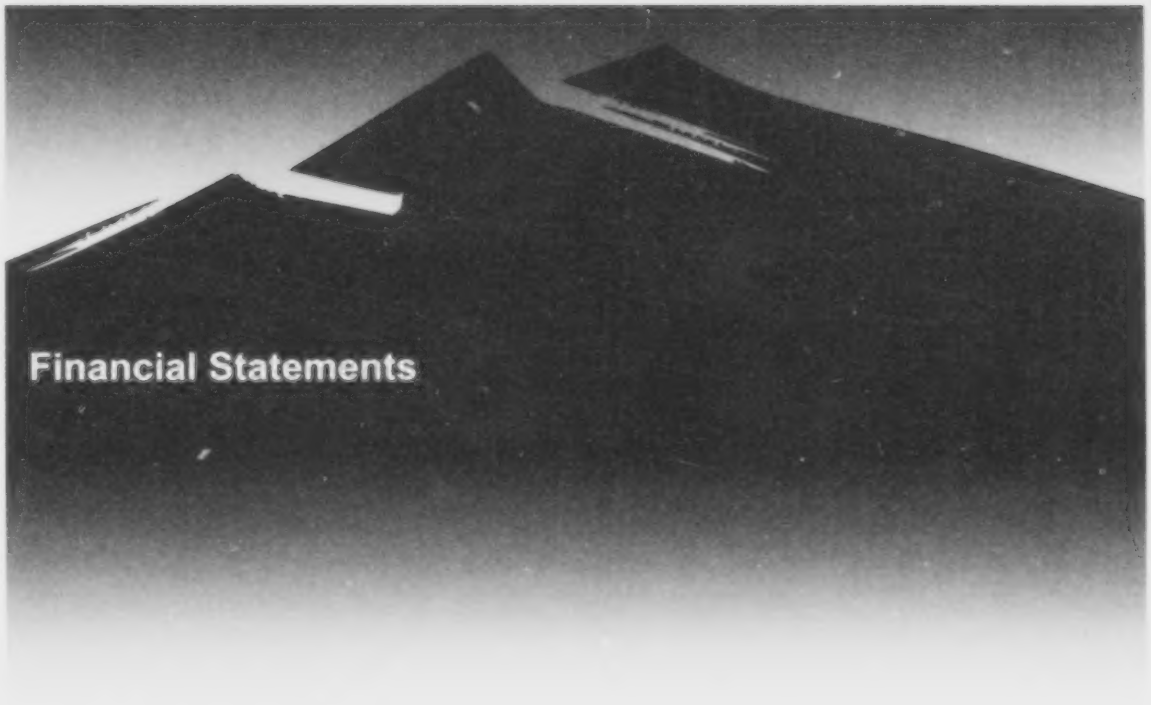
Communications

In 2003, APA Corporation delivered new member enrollment packages to 2,651 PSPP members. The Corporation responded to 22,386 inquiries from PSPP members and delivered services to 8,722 members.

APA Corporation undertook a number of key projects to provide important PSPP information and to facilitate two-way communication with key audiences. Here are just a few highlights:

- As part of the implementation of the pension administration system, home addresses were collected, allowing APA Corporation to communicate directly with members and provide them with important pension communication.
- A PSPP rate increase announcement was sent to 30,000 members via a postcard mailed directly to home addresses and via Internet updates.
- A survey of 1,000 pensioners on the effect of pension coordination before and after age 65 revealed that 72% of respondents were satisfied with their decision to coordinate their pension. Based on these results, pension coordination will continue to be an option for PSPP members at retirement.
- Pension e-news, an online publication addressing employer issues and administrative requirements, was launched in December 2003.

- A survey of 1,000 pensioners on the effect of pension coordination before and after age 65 revealed that 72% of respondents were satisfied with their decision to coordinate their pension. Based on these results, pension coordination will continue to be an option for PSPP members at retirement.
- Pension e-news, an online publication addressing employer issues and administrative requirements, was launched in December 2003.


Financial Statements

Management's Responsibility for Financial Reporting

The Public Service Pension Plan (Plan) financial statements and financial information in the 2003 Annual Report are the responsibility of the Minister of Finance. These responsibilities are undertaken on behalf of the Minister of Finance by:

- Alberta Investment Management, the investment operation of Alberta Revenue (IMD), which is responsible only for the management of assets, subject to legislation and to the investment policies and goals approved by the Board, and
- Alberta Pensions Administration (APA) Corporation, which is responsible for administration of the Plan under an Administrative Services Agreement with the Minister of Finance.

The financial statements and information in the annual report have been approved by the Board.

The financial statements have been prepared by Alberta Finance in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments. Financial information presented in the 2003 Annual Report that relates to the operations and financial position of the Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, Alberta Finance, APA Corporation and Alberta Investment Management each maintains a system of internal controls comprising written policies, standards and procedures, and a formal accountability structure.

These systems are designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of operations, investments, and financial statements.

Peter Kruselnicki, P.Eng.
Deputy Minister of Finance

Robert Bhatia
Deputy Minister of Revenue

David Smith, CA
Chief Executive Officer
Alberta Pensions Administration Corporation

March 15, 2004

Auditor's Report

To the Public Service Pension Board

I have audited the Statement of Net Assets Available for Benefits and Liability for Accrued Benefits of the Public Service Pension Plan (the Plan) as at December 31, 2003 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Actuarial Deficiency for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Liability for Accrued Benefits of the Plan as at December 31, 2003 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Actuarial Deficiency for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred Dunn, FCA
Auditor General

Edmonton, Alberta
March 15, 2004

PUBLIC SERVICE PENSION PLAN

Statement of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2003

	2003	2002
	($ thousands)	
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 4,052,748	$ 3,553,712
Accounts receivable (Note 6)	16,041	10,771
Accrued investment income	3,352	640
	4,072,141	3,565,123
Liabilities		
Accounts payable	1,354	3,651
Net assets available for benefits	4,070,787	3,561,472
Actuarial adjustment for fluctuation in fair value of net assets (Notes 2 (c))	(12,000)	356,000
Actuarial value of net assets available for benefits	4,058,787	3,917,472
Liability for accrued benefits		
Actuarial value of accrued benefits	4,655,000	4,093,000
Actuarial deficiency	**$ (596,213)**	**$ (175,528)**

See accompanying notes and schedules.

PUBLIC SERVICE PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

For the year ended December 31, 2003

	2003	2002
	($ thousands)	
Increase in assets		
Net investment income (Note 8)	$ 541,156	$ -
Contributions		
Current and optional service		
Employers	82,062	68,956
Employees	83,387	70,777
Transfers from other plans	425	1,140
	707,030	140,873
Decrease in assets		
Pension benefits	162,700	155,407
Refunds to members	13,357	16,870
Net transfer to the Local Authorities Pension Plan (Note 10)	13,935	-
Transfers to other plans	423	1,131
Net investment loss (Note 8)	-	236,270
Plan expenses (Note 9)	7,300	6,210
	197,715	415,888
Increase (Decrease) in net assets	509,315	(275,015)
Net assets available for benefits at beginning of year	3,561,472	3,836,487
Net assets available for benefits at end of year	**$ 4,070,787**	**$ 3,561,472**

See accompanying notes and schedules.

PUBLIC SERVICE PENSION PLAN

Statement of Changes in Liability for Accrued Benefits

For the year ended December 31, 2003

	2003	2002
	($ thousands)	
Increase in liability for accrued benefits		
Interest accrued on benefits	$ 303,000	$ 278,000
Benefits earned	154,000	139,000
Changes in actuarial assumptions (Note 7)	145,000	-
Net experience losses (Note 7)	121,000	4,000
Adjustment for higher than assumed cost-of-living increases in 2004	28,000	-
	751,000	421,000
Decrease in liability for accrued benefits		
Benefits paid	176,000	173,000
Transfer to the Local Authorities Pension Plan (Note 10)	13,000	-
	189,000	173,000
Net increase in liability for accrued benefits	562,000	248,000
Liability for accrued benefits at beginning of year	4,093,000	3,845,000
Liability for accrued benefits at end of year (Note 7)	**$ 4,655,000**	**$ 4,093,000**

See accompanying notes and schedules.

PUBLIC SERVICE PENSION PLAN

Statement of Changes in Actuarial Deficiency

For the year ended December 31, 2003

	2003	2002
	($ thousands)	
Actuarial (deficiency) surplus at beginning of year	$ (175,528)	$ 320,487
Increase (Decrease) in net assets available for benefits	509,315	(275,015)
Net change in actuarial adjustment for fluctuation in fair value of net assets	(368,000)	27,000
Net increase in liability for accrued benefits	(562,000)	(248,000)
Actuarial deficiency at end of year (Note 11)	**$ (596,213)**	**$ (175,528)**

See accompanying notes and schedules

PUBLIC SERVICE PENSION PLAN

Notes to the Financial Statements

December 31, 2003

Note 1 Summary Description of the Plan

The following description of the Public Service Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 and Alberta Regulation 368/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies.
The Plan is a registered pension plan as defined in the *Income Tax Act* and the Plan is not subject to income taxes. The Plan's registration number is 0208769.

(b) Funding Policy

Current service costs and the Plan's actuarial deficiency (see Note 11) are funded equally by employers and employees at rates, which together with investment earnings are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 2003 were 6.17% (2002: 4.675%) of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 8.81% (2002: 6.55%) of the excess for employees. Employers provide matching contributions. The rates are to be reviewed at least once every three years by the Board based on recommendations of the Plan's actuary.

(c) Retirement Benefits

The Plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess. The maximum service allowable under the Plan is 35 years. Pensions are payable to members who retire with at least two years of service and either have attained age 65, or have attained age 55 and the sum of their age and years of service equals 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of service.

Note 1 Summary Description of the Plan (continued)

(d) Termination Benefits

Members who terminate with at least two years of service and are not immediately entitled to a pension may receive the commuted value for all service plus excess contributions if applicable, which is subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than two years of service receive a refund of their contributions and interest.

(e) Disability Benefits

Unreduced pensions are payable to members who become totally disabled and have at least two years of service. Reduced pensions are payable to members who become partially disabled and have at least two years of service.

(f) Death Benefits

Death benefits are payable on the death of a member. If the member has at least two years of service, a surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than two years, a lump sum payment must be chosen.

(g) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of the termination benefits or commuted value for all service.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year by an amount equal to at least 60% of the average of the increases in the Alberta Consumer Price Index in the twelve-month period ending on October 31st of the previous year.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds which are held directly by the Plan, Plan investments are held in pooled investment funds administered by Alberta Revenue or external managers appointed by Alberta Revenue. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held by pooled investment funds are explained in the following paragraphs:

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by investment managers of Alberta Revenue.

The fair value of private equities is estimated by Alberta Revenue using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.

Real estate investments are reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers using methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(c) Actuarial Value of Net Assets Available for Benefits

To reduce the impact of market volatility on the Plan's funded status, asset values are adjusted for fluctuations in fair value. Assets for the previous two years are projected to increase at the rate of return assumed in the actuarial valuation. The actuarial value of net assets available for benefits is determined by averaging three years' values, consisting of current market value and asset values projected from the year-end market values for the two previous years. A policy constraint is then applied limiting the Plan's actuarial value of net assets available for benefits to between 110% and 90% of net assets available for benefits.

(d) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

(e) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. At year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(f) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts, credit default swaps and cross-currency interest rate swaps. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market index net of accrued floating rate interest.

Interest rate swaps are valued based on discounted cash flows using current market yields.

Forward foreign exchange contracts and equity index future contracts are based on quoted market prices.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(f) Valuation of Derivative Contracts (continued)

Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields and year-end exchange rates.

Income and expense from derivative contracts are accrued as earned and included in net investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

(g) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Plan's liability for accrued benefits. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's liability for accrued benefits, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements. Differences between actual results and expectations are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in liability for accrued benefits.

Note 3 Investments (Schedules A to E)

	2003 Fair Value ($ thousands)	%	2002 Fair Value ($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 62,826	1.6	$ 25,485	0.7
Canadian Dollar Public Bond Pool (b)	875,253	21.6	855,770	24.1
Real rate of return bonds (c)	237,233	5.8	213,799	6.0
Private Mortgage Pool (d)	156,768	3.9	115,169	3.3
Total fixed income securities	1,332,080	32.9	1,210,223	34.1
Canadian Equities (Schedule B)				
External Managers				
Canadian Large Cap Equity Pool (e)	374,263	9.2	242,510	6.8
Canadian Small Cap Equity Pool (e)	63,886	1.6	60,286	1.7
Canadian Pooled Equities Fund (f)	131,234	3.2	203,248	5.7
Domestic Passive Equity Pooled Fund (g)	255,526	6.3	181,641	5.1
	824,909	20.3	687,685	19.3
United States Equities (Schedule C)				
US Passive Equity Pooled Fund (h)	411,461	10.2	422,478	11.9
External Managers				
US Large Cap Equity Pool (i)	327,798	8.1	248,526	7.0
US Mid/Small Cap Equity Pool (i)	52,654	1.3	45,304	1.3
US Passive Equity Pool	-	-	797	-
S&P 500 Pooled Index Fund (h)	836	-	-	-
United States Pooled Equities Fund	-	-	118	-
	792,749	19.6	717,223	20.2
Non-North American Equities (Schedule D)				
External Managers				
EAFE Core Equity Pool (j)	486,188	12.0	376,516	10.6
EAFE Plus Equity Pool (j)	218,803	5.4	198,535	5.6
EAFE Passive Equity Pool (k)	901	-	3,830	0.1
EAFE Structured Equity Pooled Fund (k)	158,699	3.9	134,466	3.8
	864,591	21.3	713,347	20.1
Alternative Investments - Equities				
Private Equity 2002 and Income Pools (l)	3,465	0.1	373	-
Real Estate Equities (Schedule E)				
Private Real Estate Pool (m)	234,954	5.8	224,861	6.3
Total equities	2,720,668	67.1	2,343,489	65.9
Total investments	**$ 4,052,748**	**100.0**	**$ 3,553,712**	**100.0**

Note 3 Investments (Schedules A to E) (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the Scotia Capital Universe Bond Index over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans and provincial bond residuals. To limit investment risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(e) The External Managers Canadian Large Cap and Small Cap Equity Pools consist of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap or small cap equity markets. The Small Cap Pool is restricted to invest in publicly traded Canadian equities with a market capitalization of up to 0.15% of the Toronto Stock Exchange S&P/TSX Composite Index total market capitalization at time of purchase. The performance objective is to provide investment returns higher than the total return of the S&P/TSX Composite Index over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(f) The Canadian Pooled Equities Fund is managed with the objective of providing returns higher than the total return of the S&P/TSX Composite Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations and is designed to reduce risk by prudent security selection and sector rotation.

Note 3 Investments (Schedules A to E) (continued)

(g) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the total return of the S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX Composite Index.

(h) The US Passive Equity Pooled Fund and the S&P 500 Pooled Index Fund are passively managed. The portfolios are comprised of publicly traded United States equities similar in weights to the Standard & Poor's S&P 500 Index. The performance objective is to provide investment returns comparable to the total return of the S&P 500 Index. The pools utilize a combination of pure security replication and synthetic replication strategies to obtain exposure to the benchmark. To enhance investment returns with no substantial increase in risks, the pools also invest in futures, swaps and other structured investments.

(i) The External Managers US Large Cap Equity Pool consists of multiple portfolios and the External Managers US Mid/Small Cap Equity Pool consists of a single portfolio of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap or mid/small cap equity markets. The performance objective is to provide returns higher than the total return of the S&P 500 Index for the US Large Cap Pool and the Russell 2500 Index for the US Mid/Small Cap Pool over a four-year period while reducing return volatility through multiple manager investment style and unique market capitalization focus.

(j) The External Managers EAFE (Europe, Australasia and Far East) Core and Plus Equity Pools consist of multiple portfolios of publicly traded Non-North American equities. Each core portfolio is actively managed by an external manager and has constraints on foreign currency management and deviations from the Morgan Stanley Capital International (MSCI) EAFE Index asset mix by country. The EAFE Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide investment returns higher than the total return of the MSCI EAFE Index over a four-year period while reducing return volatility through multiple manager investment style and market diversification.

Note 3 Investments (Schedules A to E) (continued)

(k) The External Managers EAFE Passive Equity Pool and the EAFE Structured Equity Pooled Fund's performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period. The External Managers EAFE Passive Equity Pool consists of a single portfolio of Non-North American publicly traded equities similar in weights to the MSCI EAFE index. The EAFE Structured Equity Pooled Fund is internally managed and provides exposure to foreign markets in Europe, Australasia and the Far East through the use of structured investments such as foreign equity index swaps. The pooled fund also invests in the Floating Rate Note Pool to generate the floating rate cash flows needed for its equity swap obligations.

(l) The Private Equity Pool 2002 is managed with the objective of providing investment return comparable to the S&P/TSX Composite Index plus 2.5% over the long term. The pool invests in institutionally sponsored Canadian private equity pools managed by experienced advisors with proven records. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Income Pool is managed with the objective of providing investment return comparable to the Consumer Price Index plus 6% over the long term. The pool invests in infrastructure-related projects that are structured to provide high current income.

(m) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through intermediary companies which have issued to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The Pool is intended to provide diversification from the securities market.

Note 4 Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Note 4 Investment Risk Management (continued)

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established a target policy asset mix of 35% fixed income instruments and 65% equities. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

Note 5 Derivative Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to credit, interest and foreign currency risks, and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. For credit default swaps, parties buy and sell insurance against credit risks inherent in bonds. Periodic payments, based on a notional amount, are exchanged for a contingent payment following a defined credit event of a reference entity. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index in the future.

The following is a summary of the Plan's proportionate share of the notional amount and net fair value of derivative contracts held by pooled funds at December 31:

Note 5 Derivative Contracts (continued)

	2003					2002	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
	%			($ thousands)			
Equity index swap contracts	80	20	-	$ 718,889	$ 30,463	$ 645,937	$ 2,670
Interest rate swap contracts	34	56	10	319,818	(16,567)	221,264	(13,431)
Cross-currency interest rate swap contracts	22	49	29	266,404	(28,887)	300,474	(31,906)
Forward foreign exchange contracts	100	-	-	224,034	2,713	486,087	(1,326)
Bond index swap contracts	100	-	-	14,096	20	15,568	134
Credit default swap contracts	-	100	-	12,150	(149)	-	-
Equity index futures contracts	100	-	-	11,402	1,394	-	-
				$ 1,566,793	$ (11,013)	$ 1,669,330	$ (43,859)

(a) The method of determining fair value of derivative contracts is described in Note 2 (f).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing.

Note 6 Accounts Receivable

	2003	2002
	($ thousands)	
Contributions receivable		
Employers	$ 7,278	$ 4,900
Employees	7,253	4,884
Receivable from Alberta Pensions Administration Corporation	1,510	987
	$ 16,041	**$ 10,771**

Note 7 Actuarial Value of Accrued Benefits

(a) Actuarial Valuation

An actuarial valuation of the Plan was carried out as at December 31, 2002 by Aon Consulting Inc. and was then extrapolated to December 31, 2003.
The 2002 valuation was completed after the financial statements of the Plan for 2002 were released. As a result, the differences between the actuarial valuation results and extrapolation results for 2002 are accounted for as changes in actuarial assumptions and net experience losses in 2003.

The net experience losses as revealed in the December 31, 2002 actuarial valuation and reported in 2003 were mainly attributed to the following factors:

- Combined salary and Canada Pension Plan's Year's Maximum Pensionable Earnings increases were greater than assumed, and
- Retirement and termination experiences were less favourable than assumed.

The experience gains due to elimination of reserve for additional benefits and cancellation of anticipated benefit improvements have been more than offset by the above losses.

The 2002 valuation was determined using the projected benefit method, based on service. The assumptions used in the valuation and extrapolation were developed as the best estimate of expected short-term and long-term market conditions and other future events, taking into account the impact of increases in the maximum pensionable salary permitted under an amendment to the *Income Tax Act* which received Royal Assent on June 19, 2003. This estimate was, after consultation with the Plan's actuary, adopted by the Public Service Pension Board.

The major assumptions used were:

Note 7 Actuarial Value of Accrued Benefits (continued)

(a) Actuarial Valuation (continued)

	December 31	
	2002 Valuation and 2003 Extrapolation	2000 Valuation and 2002 Extrapolation
	%	%
Investment return	7.00	7.25
Inflation rate	3.25	3.25
Salary escalation rate*	3.75	3.75
Pension cost of living increase as a percentage of Alberta Consumer Price Index	60.00	60.00

* In addition to merit and promotion.

(b) Sensitivity of Changes in Major Assumptions

The Plan's future experience will inevitably differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2003:

Note 7 Actuarial Value of Accrued Benefits (continued)

(b) Sensitivity of Changes in Major Assumptions (continued)

		Sensitivities	
	Changes in Assumptions %	Increase in Plan Deficiency ($ millions)	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0%	$ 279	0.55%
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0%	217	1.05%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	753	2.57%

* The current service cost as a % of pensionable earnings as determined by the December 31, 2002 valuation was 10.46%.

Note 8 Net Investment Income (Loss)

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	2003	2002
	($ thousands)	
Fixed Income Securities	$ 101,117	$ 124,598
Canadian Equities	172,446	(85,688)
Foreign Equities		
United States	130,639	(172,765)
Non-North American	114,968	(115,751)
Alternative Investments - Equities	(1)	(2)
Real Estate Equities	21,987	13,338
	$ 541,156	**$ (236,270)**

Note 8 Net Investment Income (Loss) (continued)

Net investment income (loss) is comprised of the following:

	2003	2002
	($ thousands)	
Net realized and unrealized gains (losses) on investments, including those arising from derivative transactions	$ 406,551	$ (367,779)
Interest income	92,827	94,215
Dividend income	32,478	29,764
Real estate income	12,753	11,664
Securities lending income	1,058	753
Pooled funds management and associated custodial fees	(4,511)	(4,887)
	$ 541,156	**$ (236,270)**

The following is a summary of the investment performance results attained by the Plan:

	One Year Return	Four-Year Compound Annualised Return	Eight-Year Compound Annualised Return
Timed-weighted rates of return*			
Overall Plan	15.3%	2.4%	7.8%
Policy Benchmark**	14.5%	2.0%	7.8%

* The measure involves the calculation of the return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

** The policy benchmark is a product of the weighted average policy sector weights and sector returns.

Note 9 Plan Expenses

	2003	2002
	($ thousands)	
General administration costs	$ 6,118	$ 5,340
Investment management costs	721	534
Board costs	192	140
Actuarial fees	112	150
Other professional fees	157	46
	$ 7,300	**$ 6,210**

General administration and Board costs were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Revenue and do not include pooled funds management and associated custodial fees, which have been included in the calculation of net investment income (see Note 8).

In 2003, total Plan expenses of $7,300,000 amounted to $117 per member (2002 $102 per member).

Note 10 Net Transfer to the Local Authorities Pension Plan

In accordance with the Public Sector Pension Plans Act and Alberta Regulation 144/2001, eligible former members of the Public Service Pension Plan (PSPP) and the Local Authorities Pension Plan (LAPP) elected to transfer their pension entitlements after 1993 and before 2001 between PSPP and LAPP. Accordingly the actuaries for the PSPP and the actuary for the LAPP calculated the transfer amount for each of the PSPP and the LAPP using the transfer basis agreed to by the PSPP and LAPP Boards. Based on these calculations, the Boards and the Minister of Finance reached a tripartite written agreement setting out the details of the transfer and as a result $13,935,000, including investment return from January 1, 2003 to December 11, 2003, was transferred from the PSPP to the LAPP on December 12, 2003. Hence, transferred entitlements cease to pertain to the exporting Plan and become part of the pension entitlements and accrued benefits under the importing Plan.

Note 11 Actuarial Deficiency

In accordance with the Public Sector Pension Plans Act, the deficiency of the Plan as determined by an actuarial valuation as at December 31, 2002 is funded by a special payment of 2.76% of pensionable earnings to be shared equally between employers and employees commencing on September 1, 2003 and continuing 15 years from the date of valuation to December 31, 2017. The special payment has been included in the rates in effect at December 31, 2003 (see Note 1(b)).

Note 12 Comparative Figures

Comparative figures have been reclassified to be consistent with 2003 presentation.

Note 13 Responsibility for Financial Statements

These financial statements were approved by the Public Service Pension Board.

Schedule A

PUBLIC SERVICE PENSION PLAN
Schedule of Investments in Fixed Income Securities
December 31, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 67,624	$ 29,922
Fixed Income Securities (a)		
Public		
Government of Canada, direct and guaranteed	459,480	422,330
Provincial		
Alberta, direct and guaranteed	669	2,017
Other, direct and guaranteed	140,900	170,835
Municipal	13,421	16,690
Corporate	406,378	361,013
Private		
Corporate	242,947	197,785
	1,263,795	1,170,670
Receivable from sale of investments and accrued investment income	11,378	9,970
Liabilities for investment purchases	(10,717)	(339)
	661	9,631
	$ 1,332,080	**$ 1,210,223**

(a) Fixed income securities held as at December 31, 2003 had an average effective market yield of 4.41% per annum (2002: 4.77% per annum). The following term structure of these securities as at December 31, 2003 was based on principal amount:

	2003 %	2002 %
under 1 year	2	2
1 to 5 years	32	28
6 to 10 years	26	27
11 to 20 years	12	16
over 20 years	28	27
	100	**100**

Schedule B

PUBLIC SERVICE PENSION PLAN

Schedule of Investments in Canadian Equities

December 31, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 8,645	$ 7,540
Public Equities (a) (b)		
Consumer discretionary	64,610	57,549
Consumer staples	38,197	29,452
Energy	117,168	102,224
Financials	240,101	200,008
Health care	20,295	20,506
Industrials	84,406	60,069
Information technology	46,869	34,350
Materials	137,847	109,630
Telecommunication services	38,478	33,528
Utilities	18,807	22,264
	806,778	669,580
Passive Index	1,152	5,466
	807,930	675,046
Receivable from sale of investments and accrued investment income	9,740	7,229
Liabilities for investment purchases	(1,406)	(2,130)
	8,334	5,099
	$ 824,909	**$ 687,685**

(a) The Plan's net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $166,983,000 (2002 $89,298,000) which were used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

Schedule C

PUBLIC SERVICE PENSION PLAN

Schedule of Investments in United States Equities

December 31, 2003

	Plan's Share	
	2003	**2002**
	($ thousands)	
Deposits and short-term securities	$ 31,676	$ 5,628
Public Equities (a) (b)		
Consumer discretionary	122,793	95,505
Consumer staples	73,904	64,537
Energy	45,031	43,431
Financials	153,400	148,540
Health care	94,123	108,359
Industrials	87,851	87,692
Information technology	124,867	101,133
Materials	27,320	21,007
Telecommunication services	21,418	26,541
Utilities	18,760	19,549
	769,467	716,294
Passive Index	143	-
	769,610	716,294
Receivable from sale of investments and accrued investment income	4,985	4,691
Liabilities for investment purchases	(13,522)	(9,390)
	(8,537)	(4,699)
	$ 792,749	**$ 717,223**

(a) The Plan's net investment in United States public equities includes the fair value of deposits and floating rate notes, totalling $392,455,000 (2002 $424,105,000), which were used as underlying securities to support the notional amount of US equity index swaps contracts and futures contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

Schedule D

PUBLIC SERVICE PENSION PLAN

Schedule of Investments in Non-North American Equities

December 31, 2003

	Plan's Share	
	2003	2002
	($ thousands)	
Deposits and short-term securities	$ 15,807	$ 18,427
Public Equities (a) (b)		
Consumer discretionary	128,427	81,053
Consumer staples	66,401	63,272
Energy	61,864	66,834
Financials	205,385	155,473
Health Care	66,407	76,535
Industrials	91,668	67,271
Information Technology	50,116	39,654
Materials	64,445	52,812
Telecommunications services	76,088	59,481
Utilities	32,527	35,089
	843,328	697,474
Passive Index	121	-
Receivable from sale of investments and accrued investment income	8,703	4,731
Liabilities for investment purchases	(3,368)	(7,285)
	5,335	(2,554)
	$ 864,591	**$ 713,347**

(a) The Plan's net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $152,413,000 (2002 $132,534,000), which were used as underlying securities to support the notional amount of Non-North American equity index swaps contracts.

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. The following is a summary of the Plan's investment in Non-North American public equities by country based on geographic location of stock exchange on which stocks were purchased:

	Plan's Share	
	2003	2002
	($ thousands)	
United Kingdom	$ 197,395	$ 189,072
Japan	141,644	105,645
France	84,809	60,852
Switzerland	68,020	63,828
Germany	61,421	40,096
Netherlands	47,916	45,489
Australia	44,199	32,890
Italy	37,017	28,215
Spain	22,920	14,268
Hong Kong	19,290	20,320
Other	118,697	96,799
	$ 843,328	$ 697,474

Schedule E

PUBLIC SERVICE PENSION PLAN
Schedule of Investments in Real Estate
December 31, 2003

	Plan's Share	
	2003	**2002**
	($ thousands)	
Deposits and short-term securities	$ 191	$ 94
Real Estate (a)		
Office	104,191	109,068
Retail	98,633	95,199
Industrial	15,927	11,008
Residential	13,791	7,871
	232,542	223,146
Passive Index	1,622	26
Receivable from sale of investments and accrued investment income	599	1,595
	$ 234,954	**$ 224,861**

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share	
	2003	**2002**
	($ thousands)	
Ontario	$ 169,954	$ 167,680
Alberta	57,820	50,611
British Columbia	4,768	4,855
	$ 232,542	**$ 223,146**

Public Service Pension Plan